

As the name suggests, an equity-linked savings scheme (ELSS) is a type of mutual fund that primarily invests in the stock market or equity. Investments of up to 1.5 lakhs done in ELSS schemes are eligible for tax deduction under Section 80C of the Income Tax Act. The advantage ELSS has over other tax-saving instruments is the shortest lock-in period of three years. This means you can sell your investment only after three years from the date of purchase! However, to maximise returns from ELSS funds, it is recommended to keep your investments intact for the maximum duration possible. If you have an ELSS SIP (systematic investment plan), each instalment has a lock-in period of three years, which means each of your instalments will have a different maturity date.

ELSS funds are diversified equity funds. These funds primarily invest in stocks of listed companies. The stocks are chosen from across market capitalisation (large, mid, and small caps) and sectors. These funds aim to maximise capital appreciation over the long run. The fund manager picks stocks after conducting in-depth market research to deliver optimal risk-adjusted portfolio returns.

Investments made in an ELSS fund are eligible for tax benefits under Section 80C of the Income Tax Act, 1961. While there is no upper limit to the amount that can be invested, a maximum of Rs. 1.5 lakh is eligible for a tax deduction as per the IT Act. By investing this amount in an ELSS, one can save up to ₹46,800 a year in tax outgo.

Choosing a fund can be tedious. The right way is to analyse and compare different parameters across funds before finalising one. That's not all – investing in a fund depends on an individual's financial goals, investment horizon, and risk appetite. The following table shows the top-performing ELSS funds based on the past three years' returns.

Fund Name	3-Year Return (%)	5-Year Return (%)
Quant Tax Plan Direct-Growth	46.54%	22.96%
Mirae Asset Tax Saver Fund Direct-Growth	29.96%	15.42%

Fund Name	3-Year Return (%)	5-Year Return (%)
Canara Robeco Equity Tax Saver Direct-Growth	27.42%	15.39%
Kotak Tax Saver Fund Direct-Growth	29.23%	14.81%
PGIM India ELSS Tax Saver Fund Direct-Growth	30.48%	13.67%